



Surface Transportation Board's Staggers Rail Act Hearing

October 19, 2005

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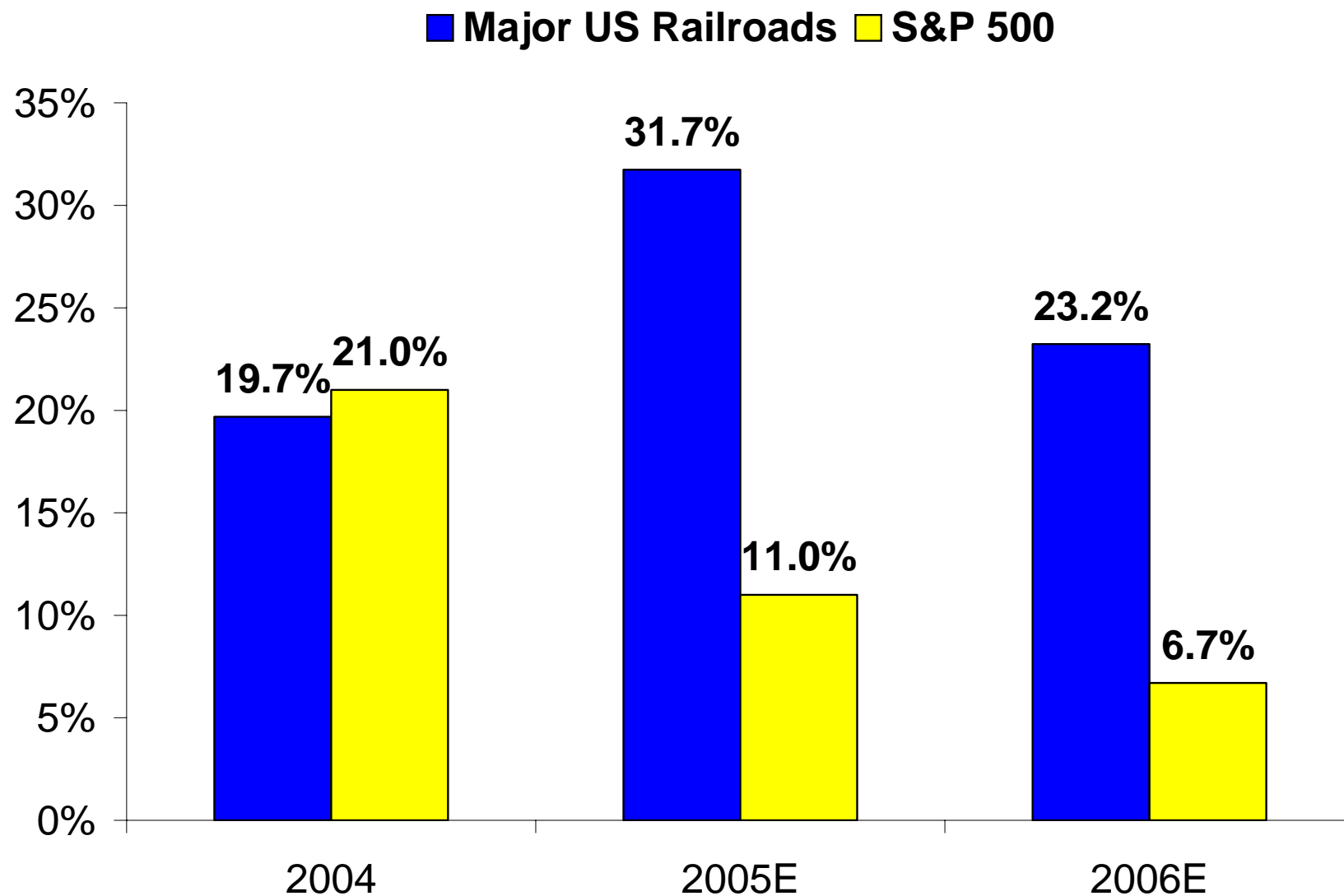
Railroad Industry Financial Forecast

	2004	2005E	2006E	2007E	2008E	2004-2008 CAGR
Carloads (thousands)	33,988	34,981	36,373	37,713	39,027	3.5%
Year to Year Change	6.1%	2.9%	4.0%	3.7%	3.5%	
Revenue Per Carload	\$1,125	\$1,234	\$1,305	\$1,337	\$1,364	4.9%
Year to Year Change	3.5%	9.6%	5.7%	2.4%	2.1%	
Railroad Operating Revenue	\$38,627	\$43,602	\$47,952	\$50,940	\$53,821	8.6%
Year to Year Change	9.7%	12.9%	10.0%	6.2%	5.7%	
Railroad Operating Expenses	\$31,613	\$34,701	\$37,710	\$39,688	\$41,416	7.0%
Year to Year Change	9.5%	9.8%	8.7%	5.2%	4.4%	
Railroad Operating Income	\$7,014	\$8,901	\$10,242	\$11,252	\$12,406	15.3%
Year to Year Change	10.2%	26.9%	15.1%	9.9%	10.2%	
Railroad Operating Ratio	81.8%	79.6%	78.6%	77.9%	77.0%	
Year to Year Point Change	-0.1	-2.3	-0.9	-0.7	-1.0	
Free Cash Flow	\$1,485	\$2,659	\$3,340	\$3,965	\$4,732	33.6%
Year to Year Change	-5.1%	79.0%	25.6%	18.7%	19.3%	

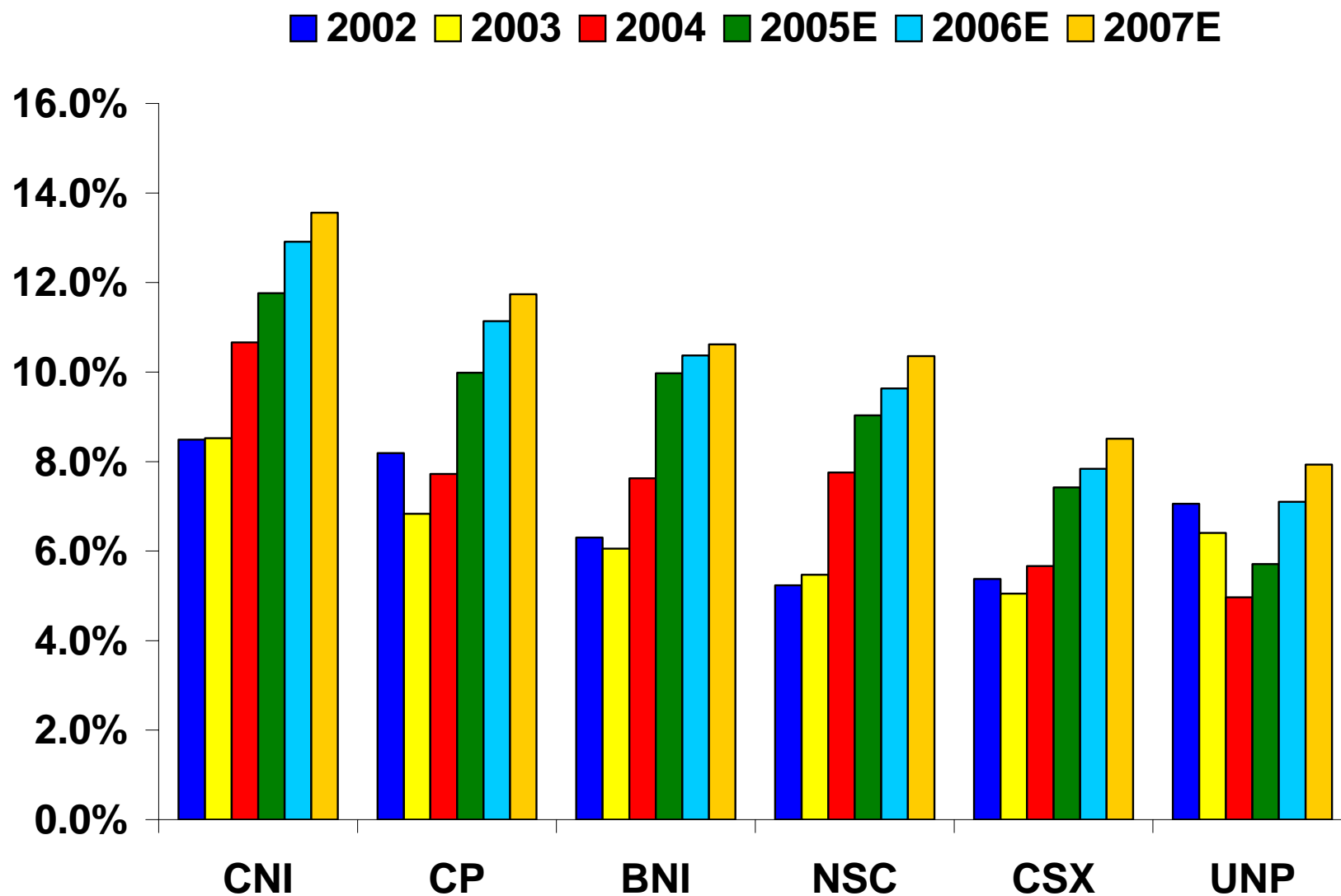
Morgan Stanley combined estimates for BNI, CSX, NSC and UNP (free cash flow includes all results, including those that are not railroad related)

CAGR = compound annual growth rate

Year-over-Year EPS Growth



Railroad RNOA (Return on Net Operating Assets)

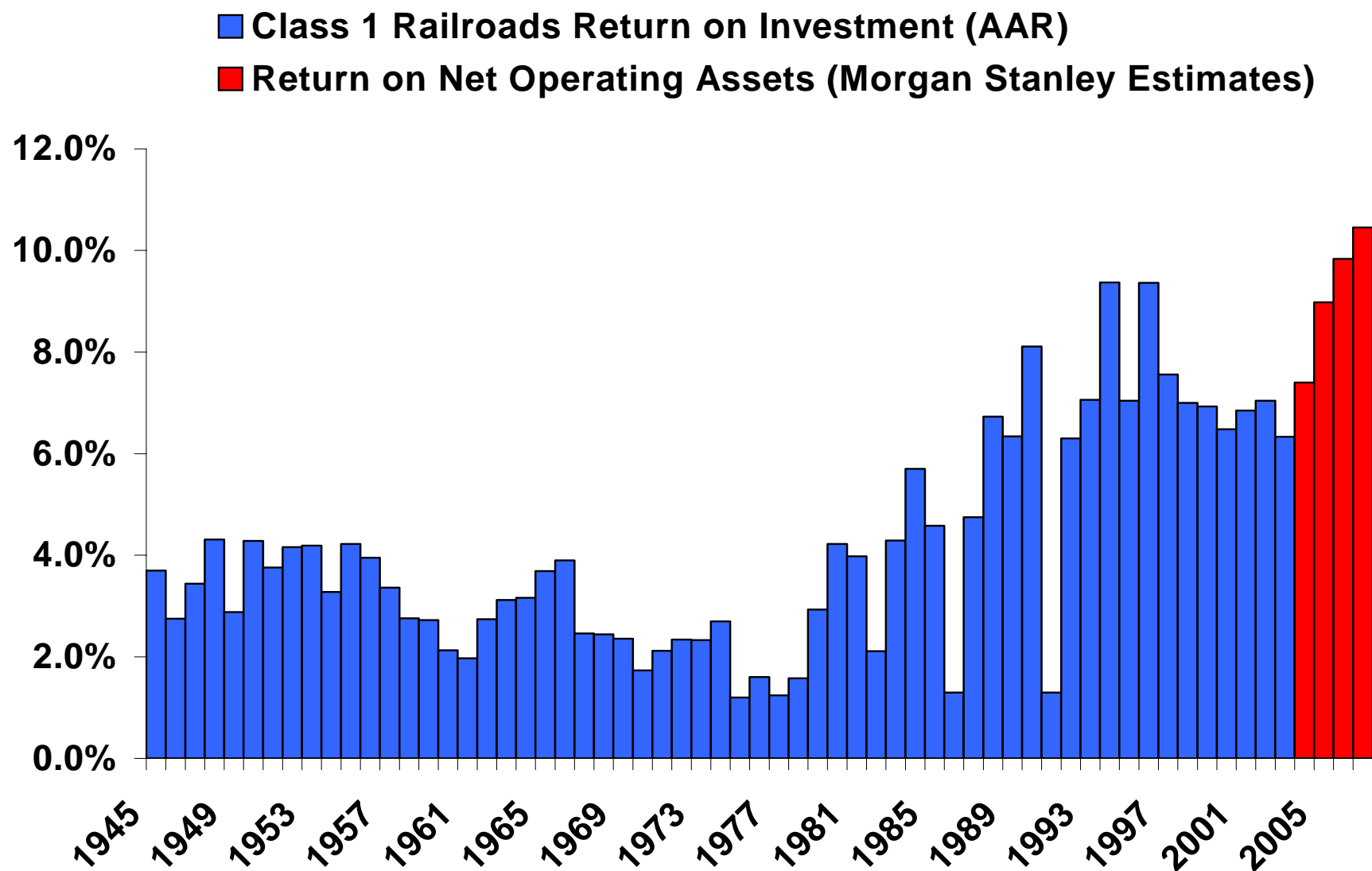


RNOA is a similar concept as ROIC but we have excluded the impact of pensions and converted off-balance sheet assets as though they were owned.

Source: Company Reports and Morgan Stanley Research



Class 1 Railroad Return on Invested Capital 1945A-2007E



Source: Historical data is from the Association of American Railroads (AAR) whereas forecasts are from Morgan Stanley Research



Valuation for Railroads and Comparable Basket

Company Name	Ticker	<u>Price to Earnings</u>	
		2006E	2007E
Burlington Northern SF	BNI	12.3	11.2
Canadian National	CNI	13.0	11.6
Canadian Pacific Railway	CP	11.7	10.6
CSX Corporation	CSX	11.6	10.0
Norfolk Southern	NSC	12.5	11.0
Union Pacific	UNP	13.3	11.0
Average		12.4	10.9

Company Name	Ticker	<u>Price to Earnings</u>	
		2006E	2007E
Air Products	APD	15.0	13.7
Alcoa Inc.	AA	13.1	13.5
Avery Dennison Corp.	AVY	16.0	14.3
BellSouth Corp.	BLS	13.7	12.0
BorgWarner Inc.	BWA	11.4	10.6
Brinker International	EAT	17.0	15.0
Constellation Energy	CEG	13.7	11.4
Donnelley, R. R.	RRD	14.0	13.0
Entergy Corp.	ETR	13.6	11.6
Gannett	GCI	11.8	11.1
Lockheed Martin Corp.	LMT	14.1	13.1
Masco Corporation	MAS	11.1	8.9
Average		13.7	12.3
Median		13.7	12.5

Source: Company Reports and Morgan Stanley Research



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ModelWare is a proprietary framework for financial analysis created by Morgan Stanley Research. This new framework rests on the principles of comparability, transparency, and flexibility, and aims to provide investors with better tools to view the anticipated performance of an enterprise. The result of an 18-month global effort, ModelWare harmonizes the underlying data and calculations in Morgan Stanley models with a broad set of consistently defined financial metrics. Our analysts have populated the database with over 2.5 million data points, based on an extensive taxonomy of more than 3,500 unique metrics and more than 400 Morgan Stanley calculations. The ModelWare framework will also have the flexibility to allow analysts and investors to quickly customize their own analytical approach.

What makes the ModelWare architecture distinctive lies in the separation of data from calculations. Its transparency will permit users to see every component of every calculation, to choose elements or recombine them as they wish without laborious adjustments or recalculations. When choices must be made in defining standard or industry-specific measures, ModelWare defaults to economic logic, rather than favoring one accounting rule over another. This discipline facilitates comparability across sectors and regions. Underlying the ModelWare data is a new set of systems that check the internal consistency of forecast data in each of our analyst's models.

ModelWare EPS illustrates the approach taken. It represents ModelWare net income divided by average fully diluted shares outstanding. ModelWare net income sums net operating profit after tax (NOPAT), net financial income or expense (NFE), and other income or expense. ModelWare adjusts reported net income to improve comparability across companies, sectors, and regions. These adjustments include the following: We exclude goodwill amortization and items deemed by analysts to be "one-time" events; we capitalize operating leases where their use is significant (e.g., in transportation and retail); and we convert inventory to FIFO accounting when LIFO costing is used. For more information on these adjustments and others, as well as additional background, please see "Morgan Stanley ModelWare (ver. 1.0): A Road Map for Investors," by Trevor Harris and team, August 2, 2004.



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- Overweight (O or Over). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
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